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Hotline:
Bipartisan speakers predict deficit crisis at ASMMA Conference

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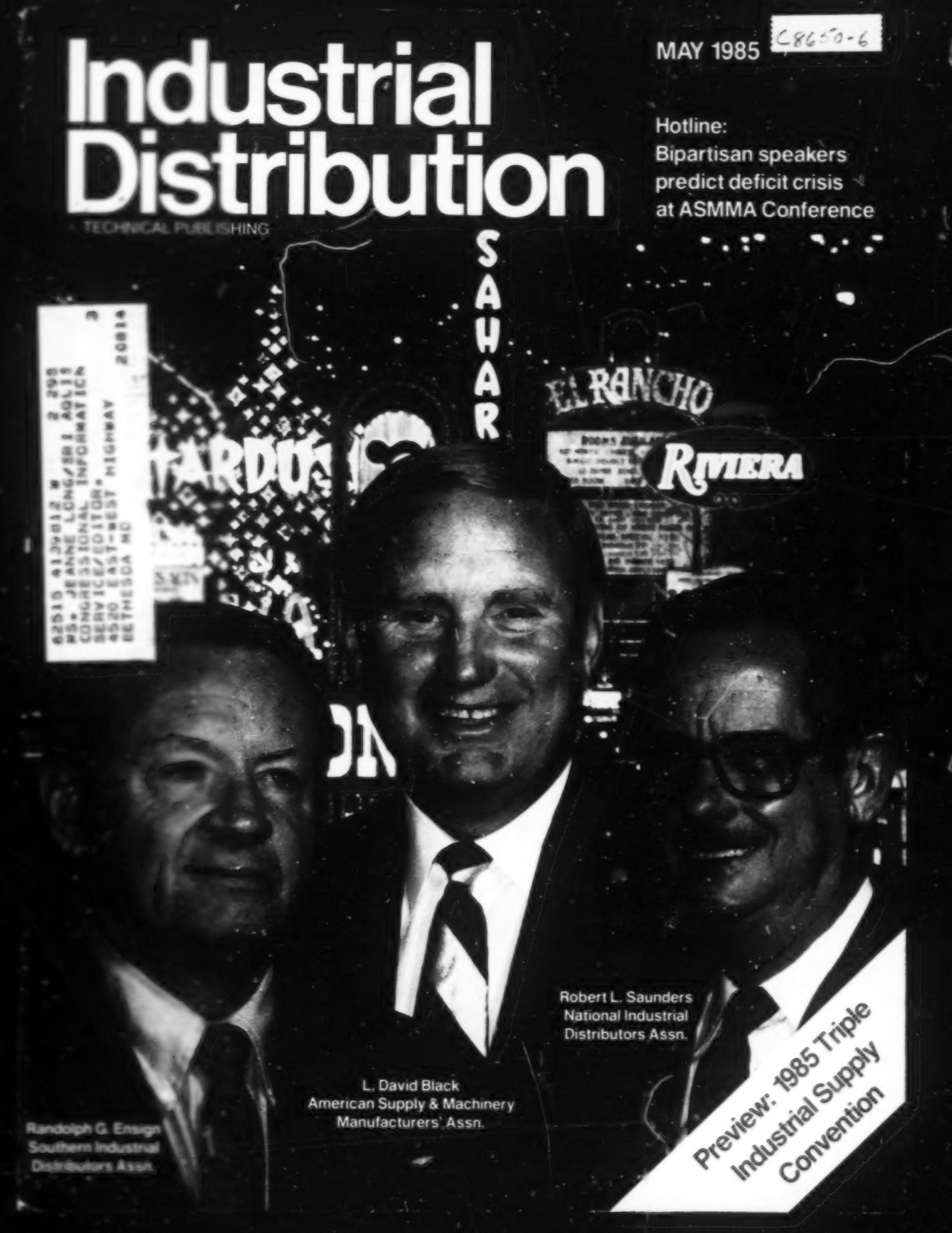

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Preview: 1985 Triple Industrial Supply Convention

ID Industrial Distribution

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INDUSTRY NEWS...

Kirby appointed VP of industrial distribution by Loctite Corp.

NEWINGTON, CT—Norman Kirby, former regional sales manager in Chicago for Agriculture/Construction and Small Engine business for Loctite Corp. has been named vice president, industrial distribution of the firm's Industrial Group.

Kirby

In his new position, Kirby will be responsible for the company's Electronics Div., Impregnation Systems Sales Group, Permatex Industrial Div. and Customer Service. He succeeds Edward Reid who recently resigned to become a consultant.

A veteran of 13 years with Loctite, Kirby was the first million dollar salesman for the company and received the President's Award and Board of Director's Award for his accomplishments.

He began his career with Loctite as a marketing representative in Detroit and was subsequently promoted to market manager and regional sales manager, his most recent position.

Kirby is a graduate of Eastern Michigan U. and a resident of Glastonbury, CT. □

Caldwell is president of W.W. Grainger Distribution Group

CHICAGO—Wiley N. Caldwell has been named president of the Distribution Group of W.W. Grainger, Inc., a distributor and manufacturer of electric motors and other products.

At the same time, Caldwell continues as corporate president with overall responsi-

Indicators . . .

Once again trends were unclear with two indices advancing and one retreating as the three key indicators sent mixed messages. The NIDA-SIDA *Industrial Distribution Index* for February rose by 39 points on a national level to 137.5, 4.8 points higher than 12 months earlier. Regionally, the Midwest fared best with a 6 point increase and the South the worst with a 94 decline while the East and West made small gains . . . SIDA's *Monthly Sales Trend Report* for January advanced by 4.83 points over December '84 and stands 9.33 higher than it was January of '84. In an analysis by region, the big winners were SIDA Area 3 comprising AL, KY, MS, and TN with a healthy 12.44 increase over December '84 and Area 4 composed of AR, LA, OK, and TX which advanced by 10.58 in January compared with December '84. The one loser for the month was Area 2 (FL, GA, SC and Puerto Rico) which dropped an insignificant 1.76 points in January vs December '84 . . . ASMMA's *New Order Index* for January dropped 3.5 points from the previous month to 119.2 which closely corresponds to the figure of 119.6 the Index registered 12 months earlier in January '84. The latest figure is slightly below the 1984 average which was 120.6 . . . the National Assn. of Aluminum Distributors *Quick Pulse Index* showed aluminum shipments for January up 15.2 points from December '84 to 104.8. While a full 10 points below the January '84 level, the current figure is the highest since October of last year . . . the American Machine Tool Distributors Assn. *Total Index* of orders for January showed a rather marked decline of 26.1% from December '84 to 63.3. Despite the current drop the Index is 5.5 ahead of January '84 for an increase of 9.5% . . . The National Welding Supply Assn. *Welding Supply Index* for January showed a vigorous 21.1 increase over December.

REGIONAL REPORT

Sales dip in February

After January's recovery from two straight months of declining sales (see graph), sales dipped again in February falling 7 percentage points and holding a slim 6% sales gain over February '84.

Characteristic of this month's reporting are mixed figures for both national and month-to-month statistics.

In national figures for regions, Pacific has the strongest gain at 17% while West South Central is weakest, down 16%. In area reporting, Upstate New York shows a gain of 16% while Wisconsin is down 6%.

In month-to-month figures, Pacific again leads with a gain of 14% while West South Central is also the biggest regional loser with sales down 12%. The U.S. Totals for this category is down 2% compared with January's gain of 8%.

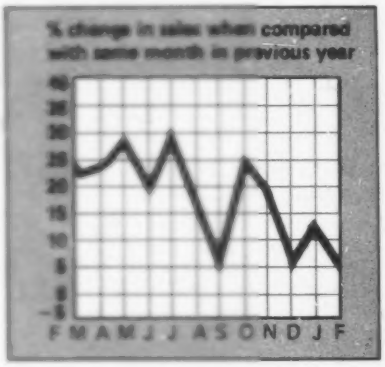
The only category to still hold up well is the cumulative report. The first two months of this year compared to the first two months of last year indicate a respectable gain of 10%. Every region and area in this category showed a gain with most in double figures.

The strongest region for two-month sales growth was Pacific, up 15%; the weakest region was West South Central, up 5%. Among area statistics Michigan is far in front with a 28% gain, while Wisconsin, at 3%, is the smallest gainer.

Receivables, which briefly broke under the 40 day mark last year, are now back over the 40 day mark with general liners at 42 and specialists at 43. □

RECEIVABLES*	Feb. '85 Gen.	Feb. '85 Spec.	vs Feb. '84 Gen.	Feb. '84 Spec.
New England	47	49	44	52
Middle Atlantic	47	44	40	41
South Atlantic	37	37	33	35
East North Central	38	43	35	40
East South Central	42	—	33	—
West North Central	—	—	—	—
West South Central	—	46	—	44
Mountain	—	—	—	—
Pacific	41	41	42	38
National	42	43	38	42

*Average days outstanding



Sales gains pared in February . . .

SALES BY REGIONS (% change)	Feb. '85 vs Jan. '85 Gen.	Spec.	Both	Feb. '85 vs. Feb. '84 Gen.	Spec.	Both	1st two months '85 vs 1st two months '84 Gen.	Spec.	Both
NEW ENGLAND: CT, RI, MA, NH, VT, ME	−2	−11	−5	0	+15	+4	+2	+27	+9
Connecticut	+1	—	—	−1	—	—	−3	—	—
Massachusetts	−5	—	—	−1	—	—	+7	—	—
MIDDLE ATLANTIC: NY, NJ, PA	−10	+4	−3	+15	0	+6	+14	+6	+9
New York Metropolitan Area	—	—	—	—	—	—	—	—	—
Upstate New York	−21	−5	−17	+31	−10	+16	—	−7	—
Pennsylvania	−1	+13	+6	+13	+1	+6	+17	+6	+11
SOUTH ATLANTIC: DE, DC, MD, FL, GA, NC	−5	−3	−4	+2	+5	+3	+8	+7	+7
SC, VA, WV									
Georgia - Florida	−12	−4	−8	+12	+8	+10	+20	+10	+14
EAST NORTH CENTRAL: OH, IN, IL, MI, WI	−2	−5	−4	0	+6	+4	+7	+15	+12
Indiana	—	—	—	—	—	—	—	—	—
Wisconsin	−8	+6	+3	−12	−4	−6	−2	+5	+3
Chicago	—	—	—	—	—	—	—	—	—
Michigan	−6	−16	−11	−1	+14	+6	+8	+34	+21
Ohio	0	0	0	+6	+17	+14	+11	+20	+18
EAST SOUTH CENTRAL: AL, MS, KY, TN	—	—	—	—	—	—	—	—	—
WEST NORTH CENTRAL: MN, ND, SD, IA, NE, KS, MO	−15	—	—	−5	—	—	+7	—	—
WEST SOUTH CENTRAL: AK, LA, OK, TX	+1	−14	−12	−2	−18	−16	+17	−7	+5
Texas	—	−12	—	—	−13	—	—	−5	—
MOUNTAIN: NM, AZ, CO, UT, NV, WY, MT, ID	—	—	—	—	—	—	—	—	—
PACIFIC: CA, OR, WA	+20	−8	+14	+23	−4	+17	+15	+12	+15
L.A.-San Diego	—	—	—	—	—	—	—	—	—
Oregon-Washington	—	−1	—	—	−9	—	—	0	—
U.S. TOTALS	+1	−5	−2	+11	+1	+6	+11	+9	+10

NIDA/SIDA Preview . . .

Distributor Productivity Report

PHILADELPHIA—Early returns indicate that 1984 was the best year in the past five years for industrial distributors with sales up 17% and most other measures improved substantially.

Trends in key measures for these past six years indicate how closely sales growth is tied to overall performance:

	1979	1980	1981	1982	1983	1984
Growth in sales (%)	22.8	5.0	6.0	-9.7	-4.1	17.0
Gross margin per employee ($1000)	35.0	35.2	37.5	38.8	37.8	45.0
PPR (Payroll Expense % Gross Margin	49.7	55.1	57.4	62.0	61.9	56.2
Inventory Turnover (Stock)	3.8	3.7	3.7	2.3	2.3	3.2

A growth business

Chart 1 indicates that industrial distributors sales have increased to 156.2% of the 1977 level compared to the *NIDA/SIDA* (National and Southern Industrial Distributors Assns.) *Inflation Index* which rose to 158%. Thus, the sales increases of industrial distributors did not keep up with price increases during this period and had there been no price increases since 1977, industrial distributors would have had a slight drop in sales over the past seven years.

The erratic sales performance coupled with virtually zero real growth has serious implications for the future of industrial distributors.

Productivity measures

Gross margin per employee in 1984 was 28.5% above 1979 which was less than the *NIDA/SIDA Inflation Index* increase of 34.6%.

Chart 2 shows that even though the gross margin per employee increased 28.5%, the typical employee compensation went up 45.4% in the same period.

If industrial distributors want to reach the goal of 50% for PPR, they must either raise the gross margin per employee (from $45,000 to $50,600) or lower the payroll per employee from ($25,300 to $22,500) as shown below:

Raise gross margin (GM):

$$\text{Personal Productivity Ratio (PPR)} = \frac{\text{Payroll}}{\text{GM\$}} = \frac{\$25{,}300}{\$50{,}600} = 50\%$$

Lower payroll per employee:

$$\text{PPR} = \frac{\text{Payroll}}{\text{GM\$}} = \frac{\$22{,}500}{\$45{,}000} = 50\%$$

The solution can of course be a combination of raising gross margin and lowering payroll.

Sales change vs PPR goal

Chart 3 shows how productivity tends to follow sales growth. The sales change plotted against the variation of PPR against the goal of 50%.

For the four years following 1979 when the PPR was 49.7%, the small or negative sales change caused severe increases in PPR data. It may have been expected that the 17% sales increase in 1984 would have brought the PPR closer to the goal of 50%, but apparently as times got better, payroll continued out of control.

Needed: more focus on productivity

The climate has never been better for improving productivity and it may never be better in the forseeable future. Although most industrial distributors did well in 1984 with sales up substantially, expenses will be rising to higher levels; and if interest rates rise, sales drop, or margins decline, there will be serious problems.

The results of 1984 were bound to be better since 1982 and 1983 saw the worst recession since the great depression which resulted in highly visible changes in attitudes of workers and makes the time opportune. Some areas to consider are:

- The work force is ready for a change. Powerful unions which had pushed their wages too high have been forced to give back increases in wages and benefits, and to make work rule changes. Plants have been closed and workers put out on the streets. Employee cooperation is the best since the depression and there are signs of self-reliance and fairness, which is a big change from "the company owes me a living." The level of aggressiveness of American labor is still dropping, but a real boom in the economy or changes in governmental policies could reverse this very healthy process. That's why it's time to make a compact with your workers, a compact to pay them based on productivity.
- We could have a continuation of the booming economy and, if we do, industrial distributors will have greater difficulty in installing a productivity improvement program.
- All of the basic information you need in order to proceed is available now—it only requires reordering and analysis.

If you become convinced that you need higher productivity in your firm you should start now—in 1985—because it just may be the one time you will be able to do it!

No controls over productivity

Over the past 15 years, I have observed the distributor performance reports of over 25 commodity line trade associations.

As you follow year to year, you will see that employee productivity, which was never very high, follows the economic cycle. When business is good, productivity increases; that is, total wage costs decrease as a percent of Gross Margin; and when business is bad, productivity goes down and payroll increases as a percent of Gross Margin.

While this is happening, the average wage is steadily increasing due to "annual automatic raises" or so called "cost of living" plans, payroll taxes, or for any excuse that can be found. Rarely, if ever, are these increases tied to productivity improvement.

Here are additional facts taken from my studies of the Distributor Performance Reports:

- High productivity is often achieved by luck.
- Fringe Benefits, a part of total wages, have risen faster than wages but are often ignored by management because they are thought to be uncontrollable. It is almost impossible to employ someone without paying the Government 14% in Social Security taxes which, for half of American workers, is more than their income tax.
- Distribution is a roller coaster business. This is part of the overall economic scheme; the wholesalers are the buffer—they are supposed to be able to operate at optimum efficiency in good times and bad. This is what the suppliers and customers believe.
- Even though many distributors have been using the wrong measures for productivity, employee productivity in distribution can and is being measured by thousands of distributors. "If you cannot measure the productivity of your workers, you cannot manage your business!"

Personnel productivity

The accepted measure of productivity in distribution is the Personnel Productivity Ratio, or PPR and the productivity of employees has a direct correlation to net profit for distributors.

The lower the PPR, the higher the profit. This correlation between productivity and profit is evidenced in most of the *Distributor Performance Reports* which have become so popular as a measuring tool for distributors who strive to improve their net profit margins.

Roadblocks to productivity

■ The inclination to set modest or ambiguous goals.

The *Wall Street Journal* has been running articles which contain the responses to queries made to a broad base of companies. In answer to the question, "What progress would be made on productivity?" I quote the following:

> "Most of the executives expect their companies to make *some* progress on productivity this year. This doesn't mean the executives have suddenly grown more optimistic about productivity. In the past, they have also forecasted moderate improvement."

Perhaps these executives have been burned before and are, therefore, disinclined to expect much, if anything, in productivity improvement.

The article also included the prediction that wages would rise 5%-6% in 1985. These automatic wage increases are perhaps the primary reason for these executives forecasting modest productivity gains. Wage increases not tied to productivity gains is the primary reason for the failure to raise productivity. If the rabbit has already received the carrot, what reward is to be offered?

■ Over-optimistic short-term forecasts.

When in a downturn, if you hold over an organization for an expected future upturn, you create the following scenario:

- You are overstaffed now.
- The staff (in order to avoid notice and/or being fired) must appear busy—thus they perform the oldest game known to workers—ALB—*Always Look Busy.*
- When (and if) the boom comes, the workers, afraid that ALB will be exposed, start demanding more staff.
- Usually the workers get their way.
- It is reasoned that we can take care of this kind of problem at the next downturn and, "What the hell, we are making money now."

■ Failure to learn to live with low growth.

We may not again see the enormous secular growth period of the past 40 years. We may see low and probably no secular growth for long periods of time. Of course, some commodity lines and some firms will be the exceptions, but their growth periods will be followed by downturns.

■ Sales management myopia.

Sales managers play a key role in any distributorship but they are rarely able to see the relationship of their efforts with the overall productivity of the firm.

Changes in sales policies and even compensation will be necessary as a result of a productivity improvement program and these changes will usually be accompanied by resistance from your sales manager and salesmen.

The sales department, where over one-half of the productivity increases must originate, will be your most difficult road block.

■ Failure to develop accurate and useable measures.

Computers have provided more information to the distributors who have them than they can possibly use. It's not that distributors don't have information, but it's often the wrong kind of information.

Smart managers will insist on information that is easy to read and understand and contains only the significant measures they need.

Managers are going to have to learn how to ask for information from their computers; they are going to reject the useless pages of data and deal only with the numbers they can use. And, they are going to have that information *when it is happening, not hours or days later.*

Have the courage to maintain an innovative approach to your business.

The role of a distributor is clearly defined, it is to do things for his manufacturers and customers more economically than they can do them for themselves.

Successful distributors find ways of making more money at this and they do it by being *different* from their direct competitors. Unlike the "traditionalists" who adhere to outmoded policies either out of lethargy or the fear of failure, innovators respond to change in the marketplace and assume the risks which are involved. □

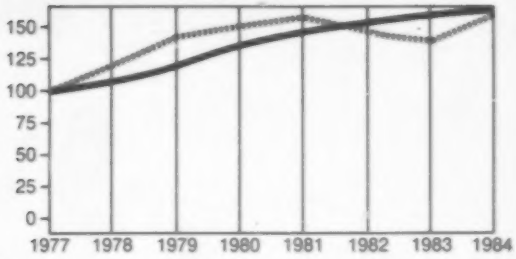
About this report:

Annually, National and Southern Industrial Distributors Assns. jointly ask members to fill out a questionnaire on their own firm's performance. Each participant receives the basic analysis for the industrial distribution industry called the Distributor Productivity Report, a confidential, personalized analysis of his own firm's performance, with obtainable goals for nearly every productivity and financial factor in his own business.

Herein is a preview of the master Distributor Productivity Report due early summer. It was prepared for NIDA/SIDA by noted distributor consultant George C. Webster. The master report may be obtained by non-members of NIDA/SIDA or by manufacturers for $150 from National Industrial Distributors Assn., 1900 Arch St., Philadelphia, PA 19103.

Chart 1

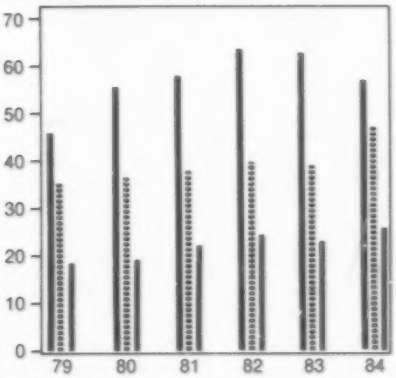
Sales Growth and NIDA/SIDA Inflation Index 1977-1984



	1977	1978	1979	1980	1981	1982	1983	1984
Cummulative Sales Growth	100.0	112.1	137.3	144.5	153.2	138.3	133.5	156.2
Inflation Index	100.0	107.2	117.4	131.2	144.3	153.1	155.0	158.0

Chart 2

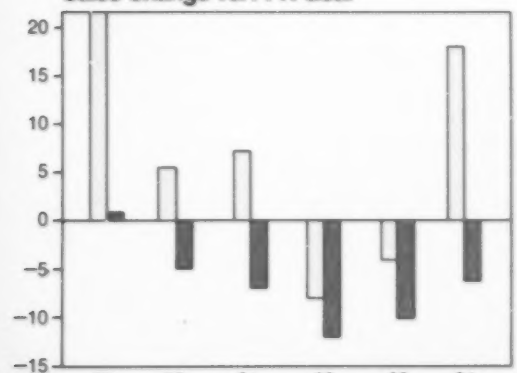
Gross Margin & Payroll per Employee vs. PPR



	79	80	81	82	83	84
PPR (%)	44.7	55.1	57.4	62.0	61.9	56.2
GM per Employee	35.0	35.2	37.5	38.8	37.8	45.0
Payroll per Employee	17.4	19.4	21.5	24.0	23.3	25.3

Chart 3

Sales Change vs. PPR Goal



	79	80	81	82	83	84
Sales	22.8	5.0	6.0	−9.7	−4.1	17.0
	+0.3	−5.1	−7.4	−12.0	−11.9	−6.2

(Variance from goal)

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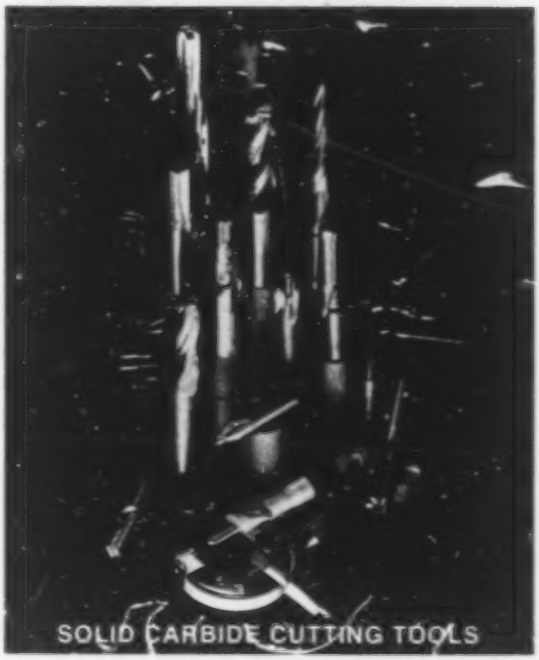

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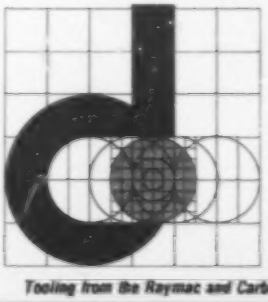

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